



## Financial Plan FY 2008/09 and FY 2009/10

### Action Item

Recommendation: Approve Financial Plan, including:  
Approve Proposed Rate IV Package (\$1,070,676)  
Approve data center relocation one-time surcharge on mainframe rates  
Align network rates in FY 2009/10  
Complete alignment of Output Processing Service rates in FY 2009/10  
Approve implementation of direct transfer for all customers

### Introduction

DTS has experienced slow but steady growth in the last three years. We have implemented the following rate realignments since consolidation:

- Phase 1 – mainframe rates were reduced by 10% resulting in an overall reduction to customers of \$16.3 million.
- Phase 2 – mainframe rates were again reduced by 25% and network rates were restructured. Total annual cost savings to DTS customers of \$26.7 million.
- Phase 3 – introduced tiered storage and zAAP Processing and realigned COM and Disaster Recovery rates. Overall revenue impact was neutral.
- Phase 4 – realignment of COEMS and Print rates plus the introduction of State Email enhancements. Overall revenue increase is approximately \$1.1 million.

Historically, mainframe services have been the main revenue source for DTS. Recently, mainframe revenues have dropped as a result of a decline in transaction counts due to migration of large applications and the recent Executive Order S-09-08. In addition, recent changes in Federal regulations prohibit the lump sum billing based upon budgetary needs for the entire data center and require billing rates to be based upon budgeted costs for each service.

Revenues and expenditures for FY 2007/08 resulted in under collection of \$7.2 million. FY 2008/09 and FY 2009/10 are projected to under collect, \$9.9 million and \$11.0 million respectively.



## Phase IV Rate Package

**Rate Package Proposes to Reduce and Restructure Some Rates:** Effective January 1, 2009, DTS proposes changes to three service rates: COEMS Services, Print services, and Email Enhancements.

- **COEMS Services:** The proposed change is designed to recover the actual raised floor costs and associated facilities costs.
- **Print Services:** DTS has not adjusted the rates for Print services since 1997; however, vendor contract costs have continued to increase. By compacting some of the current rates and adjusting other rates, the overall increase in print revenues is 30%. DTS proposes to increase the rates in “steps” to mitigate the impact to customers. DTS will increase print rates 30% on January 1, 2009 and another 30% on July 1, 2009. DTS plans to revisit print rates in FY 2009/10 as we pursue the replacement of our current print vendor
- **Enhancements to the Statewide E-mail Service Offering:** DTS is proposing three areas of enhancements to the Statewide Email service offering, effective January 1, 2009:
  - E-hub: The DTS will contract out with a private vendor for this service, which “cleanses” all email communications passing through the DTS Hub. The cost for this service is projected to be set at \$0.99 per user per month, and will involve current CA.mail customers as well as other users passing emails through the E-hub.
  - E-fax: Allows customers to receive faxed messages in their Email in-box. This will be billed as a direct pass-through cost to customers who choose to use this service.
  - Encryption: Encrypts the content of emails and will be billed as a direct pass-through cost to customers

**The cost impact to DTS Customers is \$1,070,676 for FY 2008/09 and \$2,141,352 for FY 2009/10:** This cost impact is based on actual customer usage during FY 2007/08 assuming no growth.

## Financial Issues

**Matching Revenues with Expenses:** Mainframe and Storage Services account for the majority of DTS over collections. The top four services which under collect are Network Services, Statewide Email, Output Services (Print and Computer Microfiche), and Server Based Computing.

DTS is targeting to reduce overhead and indirect expense cost expenditures by 10% in FY 2008/09, resulting in an expenditure reduction of \$4 million. In addition, DTS plans to complete the realignment of rates within a 10% threshold in FY 2009/10, proposing to decrease Storage rates and increase Network Services and Output Services rates. Finally, non-profitable services



are being examined to determine if these services can be terminated – Output services, VM Processing, Human Resources Information System (HRIS), Server Based Computing, and Linux of Mainframe.

**Cannery and South Annex Relocation and New Admin Site**

In July 2006, a report of the DTS raised floor space and supporting infrastructure revealed that the Cannery Campus has several infrastructure, location, and natural disaster problems. Continued occupancy will require millions of dollars in upgrades.

The DTS current plan includes strategies for maximizing available raised floor space usage at the Gold Camp facility and relocating the Cannery Campus raised floor to leased space outside the Sacramento area. In addition, new administrative office space will be obtained

The estimated One-Time relocation costs are:

- |                                 |                      |
|---------------------------------|----------------------|
| • Data Center Relocation        | \$7.8 million        |
| • Duplicate Rent for Transition | \$5.1 million        |
| • New Admin Site Relocation     | \$5.7 million        |
| • Duplicate Admin Site Rent     | <u>\$0.9 million</u> |
|                                 | \$ 19.5 million      |

DTS plans to finance one-time charges (\$9.1 million) and include a one-time surcharge on mainframe rates. Once the relocation is complete, DTS will recognize a total ongoing annual savings of \$2.9 million.

**Managing Cash (DTS Revolving Fund):** DTS continues to experience cash management problems. Although the DTS revolving fund averages \$75 million, approximately three-quarters (\$50 million) of the revolving fund is tied up in accounts receivables.

DTS' ongoing accounts receivable problem impacts our ability to meet monthly obligations such as payroll and payments to vendors. Although DTS has a voluntary direct transfer program, we have been unable to attract the majority of our customers.